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THE ROLE OF TNCs IN SOUTH ASIA DURING THE 1980s

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I. INTRODUCTION

This paper examines the relevance and role of TNCs in the south Asia of 1980s.[1/] The continuing debate on the new international economic order constitutes the milieu for any such analysis. The key issue of the debate i.e., who defines the rules of the international economic game finds its reflection in the changing relationship between the TNCs and countries of the third world. Two broad areas are involved in the present study: the nature of foreign participation in national economic development and the development prospects of south Asian countries. These are the two areas of significance in evolving some perspective on the role of TNCs in south Asia during 1980s. The analysis takes as its starting point the recent trends regarding foreign participation and the TNCs. These trends are examined with the purpose of arriving at the emerging relationships which may be part of the 1980s. The paper then briefly sets out the record of economic development in south Asia and the hopes and prospects of these countries over the next decade. In pursuing the topic further, the paper then discusses the possibilities of the south Asian countries in terms of utilizing the potential of the TNCs for achievement of their development aims and the likely TNC response. Accordingly this paper is divided into five sections. The present section considers the recent developments relating to the TNC system and the relevance and applicability of these trends to south Asia. The following two sections focus on the economic development experience and the development plans of south Asian countries in order to assess the regional requirements for the present purpose. The fourth section discusses the possible role for the TNCs in south Asia. The final section of the paper brings the discussion to a conclusion.

The first problem encountered in a study like the present one is that of the availability of suitable countrywise statistics on direct foreign investment, transnationals, etc. The recent United Nations document on Transnationals contains data pertaining to a number of individual countries. In its statistical tabulations the United Nations document includes only India from the south Asian countries. This may largely be owing to non-availability of parallel data on some of the other countries of south Asia. The variation in country size, resource position etc. also make difficult to discuss south Asia as a single block with common requirements. These are the handicaps that make a balanced study difficult.

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1/ For the purposes of the present study, south Asia refers to the region comprising of Afghanistan, Bangladesh, Burma, India, Nepal, Pakistan and Sri Lanka.

The TNCs have continued their expansion during the 1970s, the foreign operations expanding faster than the domestic operations, a feature which must necessarily remain if the TNCs are to grow as a system. TNCs from non-traditional countries of the Federal Republic of Germany and Japan recorded higher growth than those from the United States, United Kingdom and France. The developed countries continued to remain the focus of the TNCs operations and activities and the developing countries share remained relatively small. In the developing countries the main TNC activity continued to be in the extractive and the modern manufacturing sectors. The volume of intrafirm transactions became extremely significant. New and flexible forms of organizing TNC activity, other than equity investment, provided an important means of rapid growth. In any assessment of the 1970s the TNCs are also seen as being subjected to an increasing degree of control by the host governments. The latter adopting this policy mainly to have a larger share in the decision making involving their economies. Another development has been the relatively greater recourse to other forms of economic co-operation by the developing countries. These have included pacts at the governmental level and joint ventures as well as a whole range of measures that seek to avail of the benefits of TNCs whilst incurring the minimum possible of the disadvantages associated with the TNCs. These measures include franchising, licensing of technology, management contracts, leasing of equipment and variants of the joint venture principle.[2/]

Some of the developments have special significance for south Asia. The first such development of note is the continuing concentration of the TNCs and their activities in the developed countries. These areas remain the focus of the TNCs expansion. To a much lesser extent the TNCs expansion drive was aimed at the resource based sectors of the developing economies. Forty per cent of the world direct investment is located in four countries: United States, Canada, United Kingdom and the Federal Republic of Germany. Consequently the area-wise distribution of direct investment stock remains concentrated in the developed countries even in sectors where the cost advantages is unmistakably with the developing countries. Only one-fourth of the total foreign assets of the TNCs are located in the developing countries and moreover the bulk of these assets are concentrated in a few countries: OPEC accounts for 23 per cent, half a dozen "tax havens" for another 13 per cent, ten developing countries (of which 9 are in the

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2/ This and the following paragraphs are based on the information contained in the recent United Nations study. See United Nations, Transnational Corporations in World Development, E/C.10/38, New York, 1978. A large volume of data in support of the findings quoted above is contained in this United Nations study.

"middle income" group, i.e., relatively affluent, if that term may be used, and the tenth, that belongs to the "low income group" is India) for 41 per cent and the remaining developing countries account for the balance of 23 per cent. South Asian countries belong to the residual category with of course the exception of India.

In recording the expansion in numbers evident in the TNC system, it may be noted that by far the main source of expansion remain the developed capitalist countries. The foreign investment from the centrally planned economies and the foreign investment that now originates in the third world also contributed to the growth of the TNC system, albeit to a much lesser extent than the TNCs from the developed capitalist countries. These three sources of foreign investment are distinctly different from each other and it is necessary in the south Asian context to make the distinction. The foreign investment and collaboration provided by the three sources differs in the nature of motivating forces, in objectives, in the manner of conducting operations and in long-term prospects, besides of course the quantum of flows.

The TNC system as it is known today is almost entirely a phenomenon of the developed capitalist countries. In these countries the role of the home country is secondary and the initiative remains almost entirely in private corporate hands. Its motivations lie in pursuit of profits and growth and in ensuring sources for its supplies and markets for its output. Foreign policy of the home country has generally a supportive and secondary role rather than a determining and primary one. Intergovernmental discussions only arise if negotiations conducted by TNC with the host government fail or a situation of some dispute is created. It is this part of the TNC system which is most often threatened or subjected to take-overs and nationalizations. This variety of the TNCs system continues to flourish, adjusting as necessary, and leading a symbiotic existence where else fails, in pursuit of its goals. As for the future, from all soundings, the TNC system of the developed capitalist countries would be very much a part of the scene in the 1980s.

Foreign investment by the state enterprise of the centrally planned economies takes place in a totally different context. These investment flows are not independent of state policy. The approach of working out an over-all framework at intergovernmental level is a device that is invariably used and such a framework, generally referred to as an economic co-operation agreement, covers several areas in broad terms. The areas covered may

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include trade, financial and technical assistance, foreign investment including joint ventures and related matters. The accords generally provide for high-level intergovernmental consultations to review and appraise these matters at frequent and regular intervals. It is in context of such a framework that both the governments and state enterprises of the centrally planned economics seek and provide foreign assistance and investment. Trade flows between the countries are co-ordinated as part of the arrangement and these are often planned so as to support the production resulting from such investment e.g., where investment in a manufacturing facility is contemplated, the arrangements may also provide for purchase by the investing country of part of the output of the completed project. Foreign trade thus complements foreign investment. South Asian countries have such economic co-operation agreements with a number of countries and agreements on this pattern are by now an established part of policy. This framework of mutual economic co-operation precedes actual investment as well as determines the quantum and direction. These investment flows from the centrally planned economies often fluctuate with changing political realities but any secular decline during the 1980s may be ruled out.

The last type of foreign investment covers the flows from the developing countries. The direction of this investment is mainly the other developing countries and it may either be channelled through affiliates in a pattern which closely resembles that of the TNCs of developed countries or through joint venture and co-operation arrangements patterned after the practice of the centrally planned economies. The degree of success encountered in these cases varies considerably. The motives for this investment, which may often be a mix of official policy and private initiative, are various and also include the alleged desire of the private sector to escape the often stringent foreign exchange and similar restrictions prevalent in the home country. This foreign investment, having its source in the developing countries has yet to acquire a role and a quantum which would give it some semblance of permanence.

In south Asia, India presents an illustrative case of being the home country of foreign investment flows mainly to other third world countries. The magnitudes involved are relatively small and the benefits accruing from

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such investment are disputed.[3/] This phenomenon is still very much in a formative stage and the continuity and growth of such investment flows in the future cannot be taken for granted. Nevertheless certain policy dilemmas arise for the government. Firstly there is the choice between investment at home and investment abroad. Whether the Indian TNCs are investing abroad in areas where the Indian manufactured machinery is surplus to home requirements is a disputed matter and the facts are not clear.[4/] Secondly there is the thorny issue of reciprocity: what the government seeks for its own business abroad must be allowed at least in some degree to the foreign business it hosts.[5/] Finally the motives attributed to the Indian business firms in going transnational are various. In general they amount to a suspicion that in seeking business opportunities abroad, the Indian firm is motivated by the desire to escape certain regulations and laws in force at home. The Anti-trust legislation embodied in the Monopolies and Restrictive Trade Practices Act is said to be one such causative factor. Another alleged motive is the desire to evade the foreign exchange regulations. It is also said that this foreign investment is really a thinly disguised flight of capital and that the dividends as well as the royalties from this investment that should properly be received in India often find their way to Switzerland. The Indian businessman argues that all that goes abroad is equipment and that too in industries where the home demand for the output is declining.[6/]

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3/ According to a study made by Federation of Indian Chambers of Commerce and Industry, 100 out of the 233 joint venture projects abroad approved by the government of India had been abandoned. In 8 cases the joint ventures where given up after production had commenced. The causative factors for these developments were said to be the attitude of the foreign governments, unfavourable investment rules and regulations and difficult political condition in particular the overwhelming nationalist sentiments. Indian equity amounted to Indian Rs 34 crores. Reported in The Times of India, Bombay, issues dated 14 and 24 January 1976. A subsequent report puts the total number of these joint ventures at 327. Of these 91 are said to be in production, 101 are being implemented and 137 have been abandoned. See the weekly Commerce, Bombay, dated 19 August 1978.

4/ See reports by S.S. Aiyar in The Times of India, Bombay, issues dated 4 and 5 November 1976.

5/ In giving reasons for revalidation of a licence to the Bank of America for operating a branch in Delhi, the Union Finance Minister explained to the Parliament that although the Government pursued a policy of restraint and sparingly accorded permission to foreign banks to open branches in the country, it had to be borne in mind that some reciprocity was involved as Indian Banks proposed to expand their foreign operations. See Parliament Questions; report in The Statesman, issue dated 13 May 1978.

6/ See reports by S.S. Aiyar, op. cit.

How do the developments in the TNC system relate to south Asia? The TNCs continue to be largely a phenomenon of the developed capitalist countries and this is reflected in location of their affiliates, assets and activities. South Asia's share of TNC investment remains very small even as a percentage of the TNC investment in developing countries and this fact is suggestive of a certain back of interest in this region on part of the TNCs. By all indications this situation is likely to persist during 1980s. Apart from variations and changes TNCs in the methods of operations, there are two relatively new sources which provide the same package of inputs as the TNCs: the centrally planned economies and the TNCs of the third world. These two sources are different in motivation and behaviour from the TNCs. The investment and technology flows from the centrally planned economies are likely to be a feature of the 1980s. In case of the TNCs from the third world the Indian example has been discussed because it is an example of a third world and a south Asian country where corporate enterprise exports capital and technology on the TNC pattern. Though the quantum of this activity in terms of financial flows is relatively small, the success encountered is uneven and given these factors the future growth prospects of this phenomenon cannot be reasonably gauged.

II. PAST ECONOMIC DEVELOPMENT

The economic development of south Asia and the national development plans are discussed in this and the next section. A comprehensive discussion of the past development record is obviously not necessary for the present purpose and the focus is on select issues of relevance to the main topic under discussion: over-all growth, growth of the industrial sector, external trade defelopments particularly regarding exports, and the investment level as well as its financing. This discussion of past development is particularly selective and brief but was thought necessary for two reasons: firstly it puts the south Asian economic condition in a global context and secondly it highlights the persistent problems of the region which remain at the heart of the development planning efforts. The past developments also helps explain the absence of any significant involvement of the TNCs in the economies of south Asia.

The seven south Asian countries considered here are all primarily agricultural economies and all belong to the low income group amongst the developing countries. The low income group of countries averaged an annual

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growth rate of 0.9 per cent in the gross national product per capita over the ten years 1960-1976. Increasing populations eroded the impact of the modest rise in the output levels achieved by these countries. The growth performance of the south Asian countries aggregate rate varies from -0.4 per cent for Bangladesh to 3.1 per cent for Pakistan.

Table 1.

	GNP per capita (in dollars) 1976	Annual growth rate of GNP per capita (per cent) 1970-1976	Per capita energy consumption (eq. kg of coal) 1975
Afghanistan	160	0.0	52
Bangladesh	110	-0.4	28
Burma	120	0.7	51
India	150	1.3	221
Nepal	120	0.2	10
Pakistan	170	3.1	183
Sri Lanka	200	2.0	127
Low income countries	150	0.9	52
Middle income countries	750	2.8	524
Industrialized countries	6,200	3.4	5,016

Source: IBRD, World Development Report, 1978.

This growth performance coupled with the low initial levels of GNP spells extreme poverty. The main features of this poverty are the abysmal consumption levels of the general masses and the substantial unemployment. This poverty is also reflected in the over-riding preoccupation with achieving a food balance which in turn has dominated the planning for development

Of particular relevance for the present study are the industrialization strategies aimed mainly at import substitution that have been pursued in the past particularly by the larger south Asian countries. These efforts have been relatively successful in terms of growth in the industrial sector although generally less so than the industrialization drive in some of the other developing countries. The industrial growth achieved through import substitution has partly been at the cost of efficiency in production implying some waste of resources.

/Table 2.

Table 2. Development of the industrial sector

(in percentages)

	Average annual growth rates		Share in GDP	
	1960-1970	1970-1976	1970	1976
Afghanistan	n.a.	n.a.	n.a.	14
Bangladesh	7.9	1.8	8	8
Burma	2.8	2.8	12	11
India	5.5	3.8	20	23
Nepal	n.a.	n.a.	n.a.	10
Pakistan	10.1	4.1	16	24
Sri Lanka	6.7	3.0	16	21
Low income countries	6.7	4.5	12	19
Middle income countries	7.6	7.2	23	32
Industrialized countries	5.7	3.2	41	41

Source: IBRD, World Development Report, 1978.

The services sector has similarly increased its share in national output and this development was partly in sympathy with the achievement in the industrial sector. Taken together these changes i.e., the relative expansion in the industries and services sectors underline the modernization efforts in these economies.

The third aspect of south Asian economies reviewed here is the development of external trade and in particular the exports. Over this period the terms of trade deteriorated for south Asia excepting the cases of Burma and Pakistan. The general export performance in terms of growth was lucklustre but the imports did not show exceptional growth either. A development of note appears to be the increasing share of manufactures in total merchandise exports for some of the countries though this increase is largely owing to the export in a processed form of goods that were previously exported as primary commodities. More precisely these exports mainly consist of traditional products rather than the manufactures of "modern" industries or the output of the TNC based, export-oriented relatively unskilled/semi-skilled labour intensive industry. Thus the gains from the secular improvement in the terms of trade for the manufactures vis-à-vis primary commodities did not flow to the south Asian countries as the exports of the countries concerned were not in that category.

/Table 3.

Table 3. Trends in international trade

	Average annual growth rates (per cent)				Percentage share of manufactures in total exports		Terms of trade 1970 = 100	
	Exports		Imports					
	1960-1970	1970-1976	1960-1970	1970-1976	1960	1975	1960	1976
Afghanistan	2.4	3.3	-1.2	7.1	14	15	103	128
Bangladesh	3.8	-11.0	7.0	-11.9	-	63	97	72
Burma	-11.1	-3.5	-5.6	-20.0	2	3	104	81
India	1.6	5.0	-0.9	1.4	44	45	77	73
Nepal	n.a.	13.2	n.a.	13.6	n.a.	12	n.a.	n.a.
Pakistan	8.7	-4.4	4.3	3.4	12	55	102	111
Sri Lanka	0.5	-3.6	-0.2	-5.3	1	11	138	92
Low income countries	3.6	-0.4	4.6	-1.4	1	8		
Middle income countries	5.2	3.8	6.6	6.3	5	17		
Industrialized countries	7.6	7.8	8.6	9.5	52	76		

Source: IBRD, World Development Report, 1978.

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Stagnant investment ratios, a relatively low rate of marginal saving and persistent balance of payments difficulties also emerge as a significant feature of the south Asian development record. This in essence defines the resource problem which both reflects south Asia's poverty also explains the continued existence of this poverty.

Table 4. Share in gross domestic product
(per cent)

	Gross domestic investment		Gross domestic savings		Resource balance	
	1960	1976	1960	1976	1960	1976
Afghanistan	16	10	13	8	-3	-2
Bangladesh	7	6	8	-1	1	-7
Burma	12	11	11	9	-1	-2
India	17	19	14	19	-3	-
Nepal	8	9	3	3	-5	-6
Pakistan	12	17	5	8	-7	-9
Sri Lanka	15	15	12	13	-3	-2
Low income countries	12	15	9	8	-3	-4
Middle income countries	17	24	14	20	-2	-4
Industrialized countries	24	23	25	24	-1	1

Source: IBRD, World Development Report, 1978.

Not much can be saved at low income levels and this means increasing reliance on external funds to reach even a modest investment level. Low investment levels result in low rates of economic growth. The lack of economic growth means the persistence of low income levels. Thus the circle is completed. Not all the south Asian countries are equally caught up in this situation and India particularly has reached a substantial investment ratio, a significant rate of domestic savings and also seems to have satisfactorily resolved the balance of payments problem.

To sum up this discussion of the development record, the south Asian economic performance over the sixteen years does not show any exceptional achievements. Output increases have been eaten into by population increases and the per capita national income has improved very modestly. The living standards have remained relatively low and the levels of mass consumption have been stagnant. The growth witnessed in the modern sectors of the economy has been faster than the increase in aggregate output but not rapid enough to permit a decisive change in the structures of south Asian economies. Fluctuations in the levels of international trade of south Asia also reflect these developments and the gains from

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trade, where they exist, have not been of a magnitude to constitute a decisive shift for the long-term. Low savings and investment rates together with persistent balance of payments problems characterize most of the countries of the region. These countries continue to be agricultural economies caught up in mass poverty and grappling with problems of subsistence.

III. ECONOMIC DEVELOPMENT PLANS AND PROSPECTS

The discussion of the national development plans of south Asian for the future is of course central to the present study: here are the development goals and objectives that these nations would be pursuing in the 1980s. The desired role of the TNCs would necessarily be envisaged in this frame. The development plans reflect the aims and ambitions of south Asian nations and their view of priorities in developing their resources. There are other constructions about south Asia's economic future which are generally less hopeful but for the present purposes the preferred scenario is the one offered in the development plans. This is preferable to other possibilities as it represents official thinking about the future and constitutes a framework in which a government is likely to decide both macro-economic and micro-economic policy issues. The present discussion of plans is confined mainly to three points: both the qualitative and quantitative aims and objectives in economic development, the developments envisaged for the modern sectors of large/medium scale manufacturing and services, and the contemplated role of foreign investment. Not all the plan documents discuss these matters in even detail.7/

The planning process in Afghanistan has been beset with changes in plan periods, plan size and plan targets in recent years. The Fourth Plan was abandoned in favour of annual development programmes. In 1977 the 1976-1983 seven year plan was published. Subsequently, the new leadership has indicated that it will replace this seven year plan with a five year plan. There is at present no document which gives the official perception of the economic future of the nation.

Bangladesh is presently in the middle of a two year consolidation plan (1978/79 and 1979/80). It aims at an annual GDP growth of 5.6 per cent and an annual per capita GDP increase of 2.8 per cent. The emphasis is on the completion of ongoing projects, consolidation of the improvements in economic management and, through these measures, creating a framework in which a five year plan could be feasibly conceived. The Plan's limited span of two years keeps out the discussion of such aims and objectives which can properly be discussed only in a longer time frame.

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7/ The development plans of Burma and Sri Lanka are not discussed in this section as the relevant documents could not be obtained.

The Indian Sixth Plan 1978-1983 defines its major objectives as resolving the unemployment problems, raising the living standards of the poor and particularly the rural poor, and the provision of basic needs such as safe drinking water, basic health care, nutrition and housing facilities. Self-reliance, greater equality and a national income growth rate of just under 5 per cent per annum are also aimed at. The latter projection would put the postulated annual per capita increase in national income at under 3 per cent. The planned share of large and medium scale industry, including fertilizer and pesticides units amounts to 12.9 per cent of the public sector outlay as opposed to 16.5 per cent during the Fifth Plan period.[8/] An annual growth rate of 6.9 per cent is projected for the output of mining and manufacturing sector. The services sector is projected to grow at an annual rate of 6.1 per cent. These modern sectors are to develop more rapidly than the traditional agricultural sector where the expected of annual growth is of the order of 4 per cent.

Nepal's Fifth Plan (1975-1980) has three basic objectives: mass oriented production, a labour intensive approach in production and regional balance and integration. It aims at an annual growth rate in GNP of the order of 5 per cent or an annual per capita income increase of just under 3 per cent: a figure which is well above the 0.2 per cent recorded during 1960-1976. Other aims include the development of the infrastructure with an emphasis on what amounts to basic needs of the mass of the population. Creation of new employment opportunities is another very important consideration in Nepal's development plan. In determining sectoral priorities, agricultural sector receives emphasis and a sectoral growth rate of 3.6 per cent per annum is projected. An increasingly important role is envisaged for the public sector although a substantial allocation is programmed for the private sector. Industry, commerce, mining and power sectors account for 17 per cent of the total outlay which is substantially less than the 35 per cent allocated to the agriculture and related sectors. The role of private foreign investment is not specifically mentioned.[9/]

In its objectives the Pakistan's Fifth Plan for the period 1978-1983 addresses itself to problems of a socio-economic nature: rural development, provision of basic amenities in urban areas regional balance, satisfying the basic needs of the population, generation of employment opportunities, and laying

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8/ The public sector in Indian industry presently accounts for one-tenth of the organized industrial production and 15 per cent of the capital goods output. See Economist Intelligence Unit, Quarterly Economic Review No. 21, Annual Supplement, London, 1978.

9/ See National Planning Commission of Nepal, Basic Principles of the Fifth Plan 1975-1980.

the foundations of long-term economic growth. Annual growth of 7 per cent in the total domestic output has been postulated with the industrial sector's projected growth being 10 per cent. Relatively heavy industry is emphasized in the public sector, in particular, the completion of projects already under way: steel, cement and fertilizer. Almost half of the allocation made for the industrial sector is in the private sector and here foreign collaboration is welcomed.

The development plans of south Asia appear ambitious when conceived as a continuum of the actual experience over the past years. But this ambition is perhaps a necessity rather than a drawback of the planning process. The most pressing socio-economic problems of the population at large are the most often discussed ones in the plans. And the plan documents reflect a deep concern to eliminate poverty, meet the basic needs of the masses, promote equity by providing essential consumer goods, and create employment opportunities. The strategies for reducing unemployment are often based on acquiring labour intensive technologies in the industrial sector as well as relatively simple and cheap technologies for small scale agro-based industry in the rural sector. The plans also emphasize regional development and national integration. The goal of achieving self-reliance implies among other objectives the desire to reach equilibrium in the balance of payments. It is important to note that even if the plan targets were realized, the south Asian countries would still remain amongst the poorest in the world.

The plans do not envisage any specific long-term role for the TNCs in the national development efforts but the discussion of the existing economic conditions in south Asia, including past performance and future prospects makes obvious the substantial requirements of capital, technology other technical assistance and access to markets of the developed countries if these countries are to have a realistic chance to develop themselves. South Asian preference for labour-intensive technology and relatively rapid development of the modern sectors of industry and services, as well as the desire to achieve a situation approaching a balance in external trade and transactions also provide indications for the type of TNC involvement and collaboration which may be useful in the present context.

IV. A ROLE FOR THE TNCS

The framework for defining the role of TNCs in south Asia during the 1980s must necessarily stem from the economic development goals of south Asian countries. These goals to a large extent may be inferred from the national

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plan documents. The contents of these development plans in terms of objectives have been briefly discussed earlier. In a nutshell these objectives amount to specified annual rates of economic growth to be achieved through a strategy such that the gains from development accrue to the masses at large rather than the small elite and the planned output increases to be obtained through employing such technological relationships that create opportunities of productive employment for large numbers, economize on the capital input and lead to the widest possible linkage effects. Formulations of the required operational strategies are bound to show the considerable sectorwise requirements in terms of capital inflows, types of technologies and technical know-how as well as related skills. TNCs have become an important vehicle for providing these inputs for the productive effort. This section first considers the motive and reasons that lead the TNCs to participate in the development efforts of south Asia. The issues that are raised in course of seeking capital, technology, and know-how, i.e. what has been defined earlier in this paragraph as south Asia's continuing requirements in the 1980s are then discussed. Finally in this section, the proposition of a development strategy based on export-oriented manufacturing industries (involving unskilled labour-intensive processes and producing for export mainly to the developed countries) is examined.

Given that south Asia's requirements in terms of TNC collaboration exist, the question remains as to why should the TNCs respond. Perhaps this question should be rephrased to read: what would motivate TNCs to invest and collaborate in developing countries of south Asia. Theory offers more than one possible explanation for foreign investment flows. Explanations based on the industrial organization methodology suggest that market imperfections, or internal or external economies, exist in the host country which the foreign investor may be able to exploit with advantage and this in turn, becomes the causative factor which triggers-off the foreign investment flows. Another theoretical model is based on the theory of comparative advantage.[10/] The third explanation is the "product cycle" approach whereby the TNC is said to generate new technology, initially exports the product and finally, as the technology becomes common, establishes manufacturing facilities abroad in a defensive measure to retain

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10/ The reference here is to national comparative advantage as opposed to comparative advantage of firms in different product lines or countries which may arise by virtue of onwership-specific endowments and may lead a firm to invest in a specific product or a specific country. See John H. Dunning, "Trade, location of economic activity and the MNE" in Ohlin, et al., The International Allocation of Economic Activity, New York, 1977.

the overseas market. The first two have some relevance in explaining foreign investment flows in south Asia. The first proposition explains the foreign investment induced by protective barriers in an import substitution strategy and the second theoretical construction may offer an explanation of foreign investment flows in the unskilled labour-intensive industries of south Asia or in industries based on natural resource advantage. The third explanation based on the "product cycle" approach is more relevant in understanding the nature of some of the foreign investment flows in developed countries with accent on mass consumption of goods based on new technology and new models.

TNCs have not been the main source of capital flows for south Asia's development. The bulk of foreign capital for economic development has been available as loans and grants though bilateral and multilateral arrangements at the intergovernmental level. International financial markets have been active along with the TNCs in providing the private capital flows which of course have been considerably less in quantum than the official flows. The markets for capital are the best developed of the international factor markets. There are several sources for a prospective borrower and the terms of a loan mainly reflect the market interest rates and the risks involved in the particular case. In meeting its requirements in the 1980s for capital, south Asia therefore need not have recourse in any major way to the TNCs and, to the extent it does, international capital markets provide standards by which to negotiate the terms and conditions.

The imperative of possessing suitable and efficient technologies is evident. The international technology market is a highly imperfect one. Its chief characteristics being a large number of weak and often ill-informed buyers vis-à-vis the dominance of a few sellers. Relative bargaining power settles the price which often varies from case to case. The sellers, mainly TNCs, may have specific motivation in selling technology. These alleged motives include maximization of returns and creating a situation of dependence for the buyer. Often it is said to be a method of perpetuating control where legal ownership is not possible. Further the technology transaction may be implicitly or explicitly tied to imports of specified capital goods and other inputs. The aim of the developing countries is obviously to obtain the most efficient technology given local factor proportions, and to go in for collaboration which would help build up domestic technological capability. Foreign collaboration would have to be integrated with the technological and economic objectives of self-reliance.

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The role of the TNCs in technology transfers has to be in line with the host country's requirements without being exploitative: past experience in south Asia does not bear this out. The case of Indian Dyestuffs industry illustrates the point. Transfer of technology and imported inputs figured significantly in the development of this industry. A case study based on a sample of representative firms in the industry showed that the behaviour of technology supplying multinational corporations is geared to maximizing the surplus flow by absorbing the local Indian market rather than increasing India's share in the world market. The TNC affiliated firms in the industry showed a concentration of trade with the home country in their foreign trade and the import prices of these firms (which had foreign collaboration) were several times the prices for corresponding imports by domestic firms. The general view about the bias in the distribution of gains from foreign trade that is initiated by firms with foreign collaboration is also sustained in this case.[11/] Experience in Pakistan has been qualitatively similar: the available evidence in case of Pakistan shows the remittance of the bulk of profits of TNC affiliates as dividends and payments for technology. The highest payments for technology were in cases of leading brand names where the technology itself is elusive: e.g., soft drinks, cosmetics, tea blending, and pharmaceuticals. In case of the pharmaceuticals industry the findings are indicative that TNC affiliates pay more for technology and export a smaller proportion of their output than local firms.[12/]

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11/ For the statistics on this Dyestuffs case, see Subrahmanian and Pillai, "Implications of technology transfer in export-led growth strategy" in Economic and Political Weekly, Bombay, October 30, 1976.

12/ See F. Khilji, Multinational corporations and restrictive business practices, the case of Pakistan", Pakistan Development Review, 1975 and F. Khilji and K. Sharwani, A Quantitative Analysis of Pakistan Pharmaceutical Industry, mimeo., 1976.

The need is for taking stock of the technology situation, defining the requirements and formulating a policy so that benefits are obtained at minimum cost. Such an approach of well-defined and informed policies would also enable a stronger negotiating position. Some of the south Asian governments can be seen moving in this direction through earmarking areas of foreign collaboration. In specifying the areas of foreign investment and collaboration, the south Asian countries appear to be emphasizing the importance of technology as well as the innovative role of the TNCs. The specified areas and industries are invariably where local initiative is not forthcoming owing to lack of know-how and technology. Recently the Indian Government issued an illustrative list encompassing a large number of industries in which foreign investment and collaboration was no longer considered necessary. The list includes industries in which the country's own technological base is sufficiently developed and the country is self sufficient. However, cases where updating of technology in line with the developed countries is involved are noticeably excepted and any proposals by foreign investors would be examined on merits. Similarly the New Drug Policy the Indian Government, exempts the pharmaceutical companies from the FERA regulations requirement to bring down the foreign equity to 40 per cent or less where "high technology" is involved.[13/]

Miscellaneous considerations also effect the technology question. One source of waste is duplication: a number of firms often import similar technology. An important behavioural factor in understanding the parallel imports of technology is the feeling amongst domestic firms that the foreign brand names or trade marks for the finished product, that accompany the technology, confer great advantage in competing in the domestic markets. This aspect obviously needs a policy response which goes outside the area of pure technology.

The success experienced by a number of countries in involving TNCs in the export-oriented industries supports the idea that the experience could perhaps be repeated elsewhere with the liklihood of obtaining similar results

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13/ This exemption has recently been questioned on the grounds that "high technology" has not been defined in the Act and that a competitive industry necessarily employs the best technology, whether "high" or "low". And if the best technology has been employed it should result in higher productivity and lower cost. The only justifiable case of exemption according to the criticism would be if the technology in question could not be feasibly developed in the country itself or was not available for purchase. See, Question of High Technology, in Economic and Political Weekly, Bombay, September 30, 1978.

and this prospect becomes more desirable considering that the terms of trade have favoured manufactures vis-à-vis primary commodities (oil excepted) for close to 30 years now. These ideas are not self evident, but nevertheless have been raised time and again in south Asia and elsewhere. The south Asian countries have been promoting import-substitution for some time past and this fact limits the scope of any fresh initiatives in import-substitution. Apart from traditional manufacturing industries e.g., footwear, textiles, etc., two other possibilities of export-oriented industries exist. The transfer of a modern industry by a TNC to a particular location to service world markets is the first possibility. Selection of such a location is based on a number of factors (labour, transport costs, etc.) and the outcome at times may be a developing country. The second type of export-oriented industries set up by the TNCs in developing countries are likely to employ labour-intensive processes. At times only a single labour-intensive process of an industry may be so transferred. The present study on south Asia discusses the case of labour-intensive industries for the reason that the obvious factor of comparative advantage may persist through the 1980s. There are three distinct issues involved in any development strategy based on export-oriented industries: the impact of the strategy on national economic development, whether the strategy is equally applicable to different countries, and the longer term effects of the strategy. The three issues are considered in the context of south Asia.

The impact on national economic development of export-oriented industries based on labour intensity may be considered in terms of measurable objectives of growth and employment. These objectives figure prominently in the plans of south Asian countries. The factor to be considered in case of economic growth are the direct contribution to national income and the indirect linkage and learning effects. No hard evidence is available that would show that the contribution of these export-oriented industries to national income is always positive. In obtaining this additional income considerable overhead expenditure is incurred by the host government, i.e., the host government in order to attract the TNCs often sets up an export processing zone and builds roads, supplies basic amenities, provides port railway facilities and undertakes other similarly costly developments in the export processing zone area. This large scale expenditure really constitutes a subsidy to the TNCs and must be so treated in any calculation on cost benefits of these export-oriented industries. The linkage effects

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(the other factor contributing to growth) relate to the stimulus that these industries give to the local industry and other sectors. The pertinent question here is whether the linkages created by the export-oriented industries are greater than those created by domestic industry. The experience of some of the successful Asian countries shows that this is not necessarily the case. The training effects relate mainly to the unskilled labour and do not appear particularly relevant in south Asia where substantial numbers of semi-skilled and skilled workers in the region, unable to find remunerative work, often migrate abroad on short- and long-term contracts. The export processing zones are invariably set up in that part of the country which is relatively developed and urbanized rather than in the relatively backward regions where development is most needed. The growth effects that could arise from setting up export processing zones are also not self-evident and obvious and the magnitude of these effects does not appear to be very substantial.14/

The comparative advantage of the developing countries in the markets of the developed countries lies specifically in the unskilled labour intensity. This then is to be the general characteristic of the export-oriented industries. The question remains whether these industries which may be set up at TNC affiliates are any more labour-intensive than the domestic industries. The answer, though not clear cut, suggests the domestic industry to be relatively labour intensive.15/ The counter example of the Republic of Korea is often quoted and it has been stated that over half the incremental employment in the Republic of Korea case is attributable to export processing: the Republic of Korea case is a special one and the experience of one country cannot easily be duplicated elsewhere with identical results.16/

Other relevant issues are the relative significance of these export-oriented industries in the totality of a country's economy. If

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14/ See for specific examples, G.K. Helleiner, "Transnational enterprise, manufactured exports and employment in less developed countries" in Economic and Political Weekly, Bombay, issue dated February 1976.

15/ See, Sanjaya Lall, "Transnationals, domestic enterprise and industrial structure in host LDCs: a survey" in Oxford Economic Papers, 1978, vol. 30, No. 2.

16/ See G.K. Helleiner, op. cit.

the size of the country is large then there may be other economical ways of achieving the objectives which the export processing scheme aims at. For example the non-traded goods industries e.g., construction, building materials, services, etc. are generally more labour intensive than most export manufacturing industry. Besides, the employment generated by these industries may not be very significant in the total employment effort of a large country. The significance of such linkage and training effects is also considerably reduced when viewed as a proportion of overall economic development efforts in the larger countries. Similarly the export achieved by this effort may only be a small proportion of the country's total exports. The smaller countries have considerations of the opposite kind in reaching decisions on the export-oriented industries. In such cases, this export-oriented strategy may expose the national economy to instability by creating extensive dependence upon external trade, and may also make the country dependent on TNCs.

Even if it granted that left to itself the process produces the expected results, there remains the practical hurdle of protectionism (mainly quotas and tariffs) practicised by the industrialized and developed countries. Increasing trade between the developing countries does not offer a solution as by far the largest markets lie elsewhere: i.e., in western Europe, north America, and Japan. The intraregional linkages in south Asia have not developed to a point where a large volume of trade between the countries of the regions is foreseeable. The intra-south Asia exports were just under 5 per cent of the total regional exports in 1977. Relevant statistics were not available for the manufactures trade of south Asia but the point may be illustrated by reference elsewhere: in the ASEAN case, three of the five's exports to the rest of world have grown faster than their export to fellow ASEAN countries since 1970. This development exists given the cutting of tariffs on the intra-ASEAN trade over the same period. The slow down since 1973 in world economy has made the developed countries very shy of negotiating a further liberalization on the lines of GSP. Rather the approach is to consider individual country cases and unless the world economy expands at a considerably faster pace, there is little likelihood of any meaningful reduction of protectionism.

There are also some value considerations of a miscellaneous nature which are for each country to consider and decide for itself. These may

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be mentioned here in passing. The private sector in a country would invariably prefer the alternative of an export processing zone based on TNCs to state managed efforts for achieving a given set of employment and growth objectives. The private sector would also welcome any government subsidies and grants to further the export manufacturing industry. The presence of TNCs, together with strong military and political links with the United States have no doubt bolstered business confidence in the Republic of Korea (a successful case of manufactured exports-led growth) and perhaps considerably encouraged domestic investment. Dependence upon labour intensive technology and the prospect of specializing in the sale of unskilled labour may effect the country's self respect and also its share of the gains from trade.

Finally a balance may be drawn on the desirability of a development strategy based on export-oriented industries. The size of the country, the nature of its foreign exchange problem, the buoyancy of its traditional exports and the alternatives available are some of the deciding factors. An export manufacturing scheme may also be visualized as part of a larger country's medium-term planning efforts avoiding overly dependence on labour-intensive processes or other features which may be undesirable in the longer run. A small country may find export orientation as the only practical way of developing an industrial base as the domestic market may not be larger enough to sustain even a modest industry sector. Each country's case presents its own circumstances and generalizations may not be valid.

V. CONCLUSIONS

Looking to the 1980s, what would be the contribution of the TNCs to the development goals of south Asia? Would the TNCs make a positive contribution to the development efforts in the south Asia region or would their role be exploitative in nature? The existing research does not offer any definitive statement on the role of TNCs in the development effort; in the words of one author:

> "Far more empirical work is needed on both direct linkages and industrial structure and performance before we have a clear picture of what TNCs do and how best to use their presence to promote development." 17/

The development of south Asia is the responsibility of the south Asian governments and the development effort cannot await the availability of

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17/ Sanjaya Lall, op. cit.

conclusive research even if the issues are not crystal clear. This section, by way of summing up the discussion so far, attempts to draw some guidelines for policy formulation but these concluding remarks do not constitute a comprehensive statement of conclusions in any definitive sense.

The TNCs stake in south Asia in terms of investments already made is not very significant. The economies of south Asia have experienced little economic growth and remain amongst the low income countries. The development plans for the future (although ambitious in terms of the past development record) would not perhaps materially change the relative position of south Asian countries in the world community of nations, even if the plan targets were achieved. The implementation of the development plans raise considerable resource requirements and in meeting these requirements a definitive role exists for the TNCs. In particular the requirements of capital, technology and know-how may be met by the TNCs and to the extent the collaboration with TNCs furthers the development goals of south Asia, the foreign enterprise is definitely needed.

The significant volume of the official development assistance as well as the relatively developed state of the international capital markets, makes the role of the TNCs as financial intermediaries for provision of capital rather limited. The question of technology is more elusive and part of the problem is that this issue was historically ignored. The foreign investment which was a consequence of years of foreign domination was initially directed at the trade in primary commodities, which were required by the industries of the metropolitan countries, and the distribution of the manufactured output in the colonized territories. Next came investment in high profit industries based on relatively simple technological processes. Regulations aimed at broadening the ownership to include local nationals and control remittances of profits etc. followed in wake of political independence. During the 1950s and the 1960s, this continuing preoccupation with issues of ownership and remittances did not allow the necessary attention towards the problem of obtaining technology and know-how, particularly in the sophisticated industries, on advantageous terms. The issue of technological dependence was largely ignored.

In evolving a policy framework consonant with a national interests for setting up the TNC based export-oriented industries a number of considerations arise: the negotiating position of the country vis-à-vis

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the TNCs is considerably weakened because a fair number of low-income developing countries are presently considering parallel schemes. The TNCs largely control the marketing outlets for the output as well as the highly imperfect market for the related technologies. Developed countries have substantial protective barriers against the manufactured exports of developing countries and these trade barriers are likely to persist during the foreseeable future.[18/] All this does not imply that a worthwhile arrangement with the TNCs is impossible. Rather, the most beneficial form of collaboration with the TNCs needs to be assessed. Bargaining with full cognizance of facts may lead to a more equitable distribution of gains and a conscious development role for an export-oriented manufacturing sector may be worked out. There has to be the requisite will in the host government to drive a hard bargain. If growth and employment are the objectives then a well worked out export-oriented industries scheme represents one of the more advantageous forms of collaboration with the TNCs.

The existence of over-all policies towards foreign investment would go far to encourage and invite thinking on more detailed issues and considerations that are involved in dealing with TNCs. The basic idea is not to open the flood gates to foreign investment of the colonial type but to have genuine involvement of TNCs in furthering the development of natural resources, increasing the level of employment, encouraging the imparting of skills and training to the labour force, reducing the technological dependence, and promoting national economic integration by creating linkages of supply and production within the economy. Given south Asia's development goals TNC investment should be directed in sectors and industries that have the widest possible spillover effects in technology transfer, training of manpower, employment generation, external economies and benefit mass consumption rather than the consumption of a small affluent class. Policy thinking proceeds in terms of considering options and the sources other than the TNCs for procuring the inputs necessary for the development effort also need emphasizing. Co-operation

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18/ This view reflects the conclusions of a recent ILO study which also makes the point that the difficult economic conditions in the developed capitalist countries make any accommodation by them of the developing countries point of view exceedingly difficult. See, Mukherjee and Feller, Restructuring of Industrial Economies and Trade with Developing Countries, Geneva, 1978.

at intergovernmental level, referred to earlier, which may involve joint ventures and expensive state trading, presents an option. This is a development that is becoming increasingly common practice. Criticism has been made of this approach based mainly on joint ventures and state trading with the centrally planned economies as a substitute for collaboration with TNCs. The point has been made regarding excessive dependence on a powerful trading partner and the risks this entails in the long term.[19/] Such generalizations may be misleading and to the extent that options exist, the relative cost-benefit in tapping a particular source needs to be worked out in each case. Policy planning can only increase the awareness and knowledge of the issues involved and would naturally enable an improvement of the national case in the negotiation with TNCs for conditions and contracts.

19/ See for example the report in the weekly Capital, Calcutta, dated 27 January 1977 on Professor Raymond Vernon's address to a Calcutta audience.